



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

March 2, 2001

Re: Guidelines for the Examination of Financial History Measurement Programs for Personal Risk Insurance Underwriting and Rating Plans

Effective March 15, 2001, Financial History Measurement Programs filed with the Insurance Department will be examined for compliance with Connecticut insurance law and the attached guidelines. As a result of a lengthy examination of financial history measurement programs and the experience of such programs in other states, we conclude that they will benefit Connecticut consumers. Certain consumers will benefit through lower insurance rates. Other consumers who have had significant credit events such as bankruptcy or foreclosure should find coverage more available.

Connecticut consumers will be protected by guidelines that are unique to Connecticut. Although they reflect an expansion of existing guidelines, the new financial history program guidelines include specific protections for Connecticut consumers. The use of certain credit characteristics, such as "credit inquiries" is not permitted. Measurement programs may not include disputed credit items, while the dispute is in process with the credit scoring company. The general use of such programs is limited to "new" business. Under the guidelines, companies are required to notify consumers when an adverse decision is made due to the financial history program. The consumer is entitled to a free copy of the credit report from the credit reporting company in such instances.

The guidelines are intended to assist Insurance Department examiners in their review of financial measurement programs for compliance with Connecticut law. They may be used as a checklist for companies preparing filings. Companies are requested to present filing information in a manner that enables examiners to readily determine compliance with the guidelines. This will enable the Department to examine filings efficiently and effectively. The guidelines are subject to revision, as issues come to the Department's attention in the examination of program filings and through complaints from consumers on the use of such programs.

Concerns have been raised recently that some insurers may be attempting to circumvent existing Department guidelines concerning the use of credit scoring and financial history programs. The Department expects compliance with the intent of guidelines, as well as the letter of the guidelines. Appropriate administrative action will be taken against companies which do not comply. If there is a question of compliance, we ask that you review the program with the Department.

Insurers should review existing underwriting programs and financial history measurement programs for compliance with these guidelines. Appropriately revised new and renewal company underwriting guidelines should be filed with the Department. Please call the Property & Casualty Division at 860-297-3867, if you have questions on Financial History Measurement Programs.

Sincerely,

Susan F. Cogswell
Insurance Commissioner

A handwritten signature in cursive script that reads "Walter Bell".

By: Walter Bell, Director
Property & Casualty Division

Connecticut Insurance Department
Guidelines for Examining Financial History Measurement Programs
for Personal Risk Insurance Underwriting and Rating Plans

Chapter 701 of the General Statutes of the State of Connecticut, Personal and Commercial Risk Insurance Rating Practices, governs underwriting and rating programs and prohibits rates or rating plans which result in rates that are unfairly discriminatory. Chapter 705 of the General Statutes of the State of Connecticut, the Connecticut Insurance Information and Privacy Protection Act, governs insurer activity with respect to consumer reports and personal information. Financial history measurement programs use credit report information and credit scoring systems or programs to measure an individual's risk of loss. Financial history measurement programs used to determine eligibility for insurance or the cost of insurance coverage are permitted under Connecticut law, but they must comply with the requirements of Chapter 701 and 705. The following guidelines reflect those requirements. They are intended as a guide for companies and to assist examiners in their examination of such programs for compliance with Connecticut law.

1. Financial history measurement programs used to underwrite or rate risks must be filed with the Department. The filing must include a description of the program, identify the characteristics used in the program from which a measurement is derived, and include the rules and procedures to be used with the program, as well as an explanation of how the measurement program reduces the impact of credit information and public record items over time.
2. Financial history measurement programs may be used only for new business. Financial history measurement programs may not unfairly discriminate among applicants or result in costs that are excessive for the risk assumed. Financial history measurement programs may not penalize an insured for having no credit history. The insurer shall file underwriting criteria with the Department to determine appropriate placement or rating for such insureds. Nothing precludes a company from rating or underwriting on specific credit information, rather than utilizing a financial history measurement program. However, no company shall use both a financial history measurement program and additional specific credit information for an individual policy. Programs may not be used to re-underwrite an existing book of business on renewal. However, financial history measurement programs may be used to underwrite an existing policyholder on an individual risk basis.
3. Documentation must be submitted to demonstrate the correlation between the measurement program and the expected risk of loss.
4. Documentation must be submitted to demonstrate how the financial history measurement program:
 - a. Impacts consumers in urban territories versus non-urban territories.

- b. Impacts consumers based on the consumer's age.
5. Financial history measurement programs may not use the following characteristics to measure an applicant:
 - a. Number of credit inquiries.
 - b. The consumer's purchase or finance of a specific item (car, house, etc.)
 - c. The consumer's use of a particular type of credit card, charge card or debit card.
 - d. The consumer's total available line of credit.
 - e. Disputed credit information, while the dispute is under review by the credit reporting company.
 6. Company rules must provide that a policy may not be declined, canceled or nonrenewed solely due to an adverse credit score or measurement. For purposes of this guideline, an insurer will not be considered to have declined, canceled or nonrenewed a policy, if coverage is available through an affiliated insurer.
 7. In the event of an adverse action due at least in part to a credit report or financial history measurement program, the company must: (1) disclose to the consumer that the adverse action was based on the credit report and (2) inform the consumer that he/she is entitled to a free copy of the credit report or information and where it can be obtained. Programs must also provide that a policyholder may request to be re-underwritten on renewal to determine eligibility based on current financial history.

An adverse action includes the consumer being:

- a. Denied coverage or offered restricted coverage.
 - b. Not entitled to a discount or lower rate.
 - c. Given a reduced discount.
 - d. Charged a higher rate.
 - e. Assigned to a higher rate tier or a higher priced company within an insurer group.
 - f. Otherwise being adversely impacted due to the financial history measurement program.
8. The Department may ask the company to provide a financial history measurement for a set of test examples, reflecting various financial history characteristics.
 9. After a company's program is in effect for two years, the company shall submit a report to the commissioner on the use of the program in Connecticut. The report shall include information demonstrating that the program results in rates that are supported by the data, and which are not unfairly discriminatory. The report shall include an analysis of consumer complaints to the company based on the use of financial history, sufficient to identify the basis for the complaint and resulting company action.